MONTHLY HOUSE VIEW

MARKETS, INVESTMENT & STRUCTURING – MAY 2020

MARKETING MATERIAL

FOCUS

THE LOCKDOWN IMPACT ON EARNINGS REVISIONS

EQUITIES

A WALL OF EARNING PUBLICATIONS AHEAD

This is an excerpt of our Monthly House View. Should you wish to receive the full version, please contact us.

EDITORIAL

VINCENT MANUEL

Global Chief Investment Officer,
Indosuez Wealth Management

THE WORLD POST COVID-19: BACK TO WELFARE STATE?

Dear Reader,

There are mounting questions behind the significant rise of fiscal and monetary policy decisions designed to limit the economic consequences of the COVID-19: Are these measures temporary? What will be the impact on fiscal balances and government debt in the next decade? Is globalisation over?

The magnitude of the measures is the mirror of the significant hit of the lockdown measures on our economies. What is also spectacular is to observe that after four decades of unwinding of regulations and the state's economic and social interventions, it took only a month to implement significant safety nets for individuals and corporates.

Beyond the magnitude of the policy response, the similitude between the concepts and words today with the speeches from the Great Depression, the Second World War and its aftermaths lead us to think that we may be experiencing a more structural than temporary shift in economic policies.

Indeed, if governments need to bail-out airlines, energy or automotive companies twelve years after having bailed out banks, this is a signal that states are unsure of a permanent reinsurance function of economic cycles. And if governments are to send helicopter money to jobless people or to companies to avoid unemployment, we are indeed back to the Welfare State. This does not come as zero cost. In the public opinion's eye, it would be hard to justify that companies buy back their own shares and leverage their balance sheet in the expansionary phase and beg for state aid in recessive phases. So, we should work with the assumption that returns may diminish either through more frugality on buybacks and dividends, or through higher taxes.

Obviously this will increase polarisation between companies and sectors, and technology companies are emerging as the winners of this crisis, as reflected by their recent performance. On the contrary, one could question if the adoption of home office triggers questions on the value of city-centre office space.

The problem that emerges afterwards is how states will finance their debt. Practically, it is politically and economically impossible to raise taxes today. But from an arithmetic standpoint, an increase of taxes seems likely in the next decade. Since countries will continue competing to attract companies, it is likely that corporate tax should remain low. So there is obviously a risk that households will be taxed more, and VAT is generally the easy way to do this. However, in a world of rising social inequalities and climate change issues, some governments could be tempted to solve this equation with a tax on carbon.

Beyond the magnitude of the fiscal stimulus, what is striking is the growing idea that a nation's sovereignty also lies in its capacity to domestically produce the essential goods to cover the basic needs of its population, including food, vaccines and drugs and healthcare devices. This could lead to some changes in the perceived benefits of globalisation in the political debate of the next elections.

Life and investments after COVID-19 may be quite different and it is not necessarily bad news after all.

Corporate Earnings and the Great Lockdown.

FOCUS

THE LOCKDOWN IMPACT ON EARNINGS REVISIONS

CORPORATE EARNINGS REALITY CHECK

As COVID-19 spread around developed countries, equity markets lived their own March Madness as that month was marked by forced deleveraging increased by negative volatility feedback loop and a lack of liquidity. Strong central banks and government interventions combined with improved news flow on the COVID-19 managed to somewhat calm markets, leading to a bounce in equity prices from their 23 March lows.

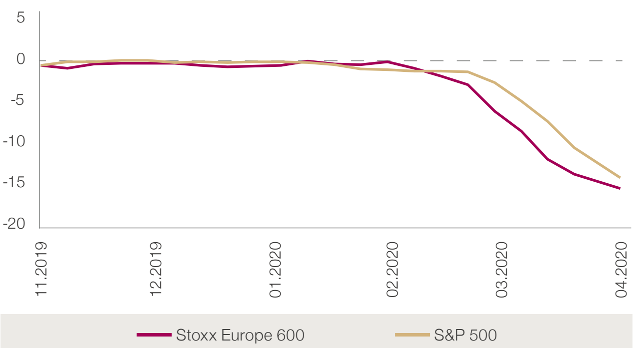
While volatility is likely here to stay for the coming months, we may have passed its peak and investors are now starting to turn to first quarter earnings season in order to assess the impact the Great Lockdown Crisis (GLC) has on corporates given that a majority of US and European companies will publish their results in the coming weeks.

IS COVID-19 FULLY PRICED IN BY ANALYSTS?

The Q1 earnings consensus for US companies has so far been revised from 3.7% at the beginning of the quarter to almost -15%. This is led by major revisions for cyclical sectors as energy companies who are now expected to see their earnings shrink by more than 50% while materials and industrials sectors could publish earnings at least 30% lower than in Q1 2019. The more defensive and quality sectors that we have been advocating for a while should, however, show a higher resilience in this quarter as utilities, healthcare, consumer staples and IT should not experience such a strong drop in earnings this quarter on average. At the time of writing, only 14% of S&P 500 companies have published their results with a current running rate of -22%. This is mainly due to financials which were among the first to publish and are down around 50%.

We believe that we could see further downward revisions in the coming weeks and months. Firstly, equity analysts tend to be slow in revising their earnings expectation. As the graph shows, they only started to revise down their annual earnings forecast in the second half of March while equity markets had already corrected by 20 to 30%.

ONE MONTH EARNINGS REVISIONS, US AND EUROPE 2020 EPS, %



Source: Facset, Indosuez Wealth Management.
Past performance does not guarantee future performance.

Secondly, the first quarter of 2020 has been a mixed bag as January was "business as usual" for most companies (except in China) while they were fully hit by a global lockdown in March. The second quarter is likely to see the bulk of the impact of the COVID-19 virus on the economy as governments will only start to ease confinement measures in May and June.

A BALANCING ACT BETWEEN LOCKDOWN AND FISCAL AND MONETARY PACKAGES

On a global basis, the 2020 earnings consensus stands around -8% versus +8.9% at the start of the year. Is it enough? As a rule of thumb, strategists usually expect earnings growth to drop by about 8-10% for each GDP growth percentage loss. If global GDP falls by 2-3% instead of rising by 2%, global earnings could drop by 40-50%. There may be room for earnings to fall further but a few factors will be important to follow to further asses the full effect of the lockdown on corporates earnings:

- How is de-confinement taking place and at which pace? While the daily cost of the lockdown is extremely high for most countries, there is always a risk to re-open the economy too quickly and the resurgence of COVID-19 cases in Singapore is a warning to other countries that a second wave is a possibility.
- Government and central bank support: The impact of GDP growth on earnings is indeed a simple rule of thumb and does not factor in the unprecedented flood of liquidity provided by central banks combined with unprecedented fiscal measures. This should provide some sort of cushion to the economy and hopefully limit the overall negative effects of the lockdown.
- Funding cost: At the margin, the fall in bond yields and central bank corporate bond purchases should help companies to fund themselves at a lower cost and help corporate restore part of their margins.

Indeed, while a recession is almost a given for 2020, there is room for a strong rebound in earnings once the economy is again fully open. This should be supportive for earnings in 2021 and positive for earnings in the long-run but equity markets are very likely to remain volatile in the coming months as we fully uncover the impact of the pandemic and its associated lockdown on the economy.

EARNINGS ANALYSTS CONSENSUS, FULL YEAR 2020, %

REGION	AS OF MID-APRIL	AS OF 1ST OF JANUARY 2020
GLOBAL	-7.8	8.9
USA	-9.0	9.0
EUROPE	-12.0	8.6
EM	-6.0	15.0

Note: Emerging Markets (EM) is monthly data and may therefore been adjust downward once it is released at the end of the month.
Source: Institutional Broker's Estimate System, Indosuez Wealth Management.

DISCLAIMER

CA Indosuez Wealth (Group) ("Indosuez Group"), incorporated under French law, the holding company for the Crédit Agricole group's Wealth Management business, and its related subsidiaries or Entities, namely CA Indosuez Wealth (France), CA Indosuez (Switzerland) SA, CA Indosuez Wealth (Europe), CFM Indosuez Wealth, their respective subsidiaries, branches and representative offices, whatever their location, CA Indosuez Wealth (Miami), CA Indosuez Wealth (Brazil) SA DTVM and CA Indosuez Wealth (Uruguay) Servicios & Representaciones SA operate under the single brand Indosuez Wealth Management. Each of the subsidiaries, its own subsidiaries, branches and representative offices as well as each of the other Indosuez Wealth Management Entities are referred to individually as the "Entity"and collectively the "Entities".

This document entitled "Monthly House View" (the "Brochure") is issued for information purposes only.

Generally, the Brochure is not intended for any particular reader.

The Brochure has been prepared by the Markets, Investment and Structuring Department of CA Indosuez (Switzerland) SA (the "Bank"). It is not considered being a financial analysis pursuant to the Swiss Bankers Association's directives aiming to guarantee the financial analysis independence. Thus, these directives do not apply to the Brochure.

The information contained in the Brochure is based on sources believed to be reliable, but it has not been independently verified. The Bank does not represent or warrant (expressly or implicitly) that such information is current, accurate or complete. The Bank does neither represent nor warrant (expressly or implicitly) any projection, estimation, objective or opinion contained herein and no one should rely on it. The relevant date for the information contained in this document is, unless otherwise specified, the one indicated on the first page. Any references to prices or performances are subject to change at any time. Past prices and performances are not necessarily a guide to future prices and performances. Foreign currency rates of exchange may adversely affect the value, price or income of the financial instruments mentioned in this document if the reference currency of one of these financial instruments is different than the investor's.

The Bank may have issued or may issue in the future other documents that are inconsistent with, and reach different conclusions than those presented in this document. The Bank is under no obligation to ensure that such other documents are brought to your attention. The Bank may at any time stop producing or updating this document.

The Brochure does not, in any way, constitute an offer or an invitation of any nature with a view to any transaction or a mandate. Similarly, it does not, in any way, constitute a strategy, personalised or general investment or disinvestment recommendation or advice, legal or tax advice, audit advice, or any other advice of a professional nature. The information published in the Brochure has not been reviewed and is not subject to the approval or authorisation of any regulatory or market authority whatsoever, in whatever jurisdiction.

The Brochure contains general information on the products and services that are described therein, which may generate some risk depending on the products and services. The risks include, amongst others, political risks, credit risks, foreign exchange risks, economic risks and market risks. For a comprehensive description of the products and services mentioned in the Brochure, it is important to refer to the related documents and brochures. You are advised to contact your usual advisers in order to make your decisions independently, in light of your particular financial situation and your financial knowledge and experience.

The Entities or their shareholders as well as its shareholders, subsidiaries, and more generally companies in the Crédit Agricole SA group (the "Group") and respectively their corporate officers, senior management or employees may, on a personal basis or in the name and on behalf of third parties, undertake transactions in the financial instruments described in the Brochure, hold other financial instruments in respect of the issuer or the guarantor of those financial instruments, or may provide or seek to provide securities services, financial services or any other type of service for or from these Entities. Where an Entity and/or a Crédit Agricole Group Entity acts as an investment adviser and/or manager, administrator, distributor or placement agent for certain products or services mentioned in the Brochure, or carries out other services in which an Entity or the Crédit Agricole Group has or is likely to have a direct or indirect interest, your Entity shall give priority to the investor's interest.

The products and services mentioned in the Brochure may be provided by the Entities under its contractual conditions and prices, in accordance with applicable laws and regulations and subject to the licences they have obtained. They may, however, not be available from all Entities. They may be modified or withdrawn at any time without any notification.

The Brochure is not intended for or aimed at the persons of any country in particular. The languages in which it is drafted form part of the working languages of Indosuez Wealth Management. The Brochure is not intended for persons who are citizens, domiciled or resident in a country or jurisdiction in which its distribution, publication, availability or use would contravene applicable laws or regulations. The products and services may be subject to restrictions with regard to certain persons or in some countries. In particular, the products or services featured in the Brochure are not suitable for residents of the United States of America or Canada.

The Brochure is published by CA Indosuez (Switzerland) SA on behalf of Entities in the Indosuez Wealth Management Group, whose employees, experts in their respective field, contributing to the writing of the articles contained in the Brochure. Each of the Entities makes the Brochure available to its own clients in accordance with applicable regulations. We would draw your attention to the following specific points:

- in France: this Brochure is distributed by CA Indosuez Wealth (France), a public limited company with a capital of 82,949,490 euros, a credit institution and an insurance brokerage company registered with the French Register of Insurance Intermediaries under number 07 004 759 and with the Paris Trade and Companies Register under number 572 171 635, whose registered office is located at 17, rue du Docteur Lancereaux - 75008 Paris, and whose supervisory authorities are the Prudential Control and Resolution Authority and the Autorité des Marchés Financiers. The information in this Brochure does not constitute (i) investment research within the meaning of Article 36 of Commission Delegated Regulation (EU) 2017-565 of 25 April 2016 and Article 3, paragraph 1, points 34 and 35 of Regulation (EU) No 596/2014 of the European Parliament and of the Council of 16 April 2014 on market abuse, nor (ii) a personalized recommendation as referred to in Article D. 321-1 of the Monetary and Financial Code. Readers are advised to implement the information contained in this Brochure only after having exchanged with their usual contacts within CA Indosuez Wealth (France) and gathered, where appropriate, the opinion of their own specialised accounting, legal and tax advisers;
- in Luxembourg: the Brochure is distributed by CA Indosuez Wealth (Europe), a credit institution, 39 allée Scheffer L – 2520 Luxembourg, BP1104, L - 1011 Luxembourg, registered in the Luxembourg Trade and Companies Register under number B9198;
- in Belgium: the Brochure is distributed by CA Indosuez Wealth (Europe), Belgium Branch, Chaussée de la Hulpe 120 Terhulpsesteenweg, Bruxelles B-1000, Belgium, registered in the Trade Register BE 0534.752.288;
- in Spain: the Brochure is distributed by CA Indosuez Wealth (Europe), Spain Branch, Paseo de la Castellana 1, 28046 Madrid, Spain, registered in the Trade Register CIF W-0182904 C;
- in Italy: the Brochure is distributed by CA Indosuez Wealth (Italy) S.p.A., headquartered in Piazza Cavour 2, Milan, Italy, entered in the register of banks maintained by Banca di Italia under no. 5412, tax code and Milan trade companies register and VAT identification no. 09535880158, R.E.A no. MI-1301064;
- within the European Union: the Brochure may be distributed by Indosuez Wealth Management Entities authorised to do so under the Free Provision of Services;
- in Monaco: the Brochure is distributed by CFM Indosuez Wealth, 11, Boulevard Albert 1er - 98000 Monaco registered in the Monaco Trade and Industry Register under number 56S00341;
- in Switzerland: the Brochure is distributed by CA Indosuez (Switzerland) SA, Quai Général-Guisan 4, 1204 Geneva and by CA Indosuez Finanziaria SA, Via F. Pelli 3, 6900 Lugano. The Brochure constitutes marketing material and does not constitute the product of a financial analysis within the meaning of the directives of the Swiss Bankers Association (SBA) relating to the independence of financial analysis within the meaning of Swiss law. Consequently, these directives are not applicable to the Brochure;
- in Hong Kong SAR: the Brochure is distributed by CA Indosuez (Switzerland) SA, Hong Kong Branch, 29th floor Pacific Place, 88 Queensway. No information contained in the Brochure constitutes an investment recommendation. The Brochure has not been referred to the Securities and Futures Commission (SFC) or any other regulatory authority in Hong Kong. The Brochure and products it may mention have not been authorised by the SFC within the meaning of sections 103, 104, 104A or 105 of the Securities and Futures Ordinance (Cap. 571) (SFO). The Brochure may only be distributed to Professional Investors (as defined by the SFO and Securities and Futures (Professional Investor) Rules (Cap. 571D));
- in Singapore: the Brochure is distributed by CA Indosuez (Switzerland) SA, Singapore Branch 168 Robinson Road #23-03 Capital Tower, Singapore 068912. In Singapore, the Brochure is only intended for persons considered to be high net worth individuals in accordance with the Monetary Authority of Singapore's Guideline No. FAA-G07, or accredited investors, institutional investors or expert investors as defined by the Securities and Futures Act, Chapter 289 of Singapore. For any questions concerning the Brochure, recipients in Singapore can contact CA Indosuez (Switzerland) SA, Singapore Branch;
- in Lebanon: the Brochure is distributed by CA Indosuez Switzerland (Lebanon) SAL, Borj Al Nahar bldg., 2nd floor, Martyrs' Square, 1107-2070 Beirut, Lebanon. The Brochure does not constitute an offer and does not represent marketing material within the meaning of applicable Lebanese regulations;
- in Dubai: the Brochure is distributed by CA Indosuez (Switzerland) SA, Dubai Representative Office, The Maze Tower – Level 13 Sheikh Zayed Road, P.O. Box 9423 United Arab Emirates. CA Indosuez (Switzerland) SA operates in the United Arab Emirates (UAE) via its representative office which comes under the supervisory authority of the UAE Central Bank. In accordance with the rules and regulations applicable in the UAE, CA Indosuez (Switzerland) SA representation office may not carry out any banking activity. The representative office may only market and promote CA Indosuez (Switzerland) SA's activities and products. The Brochure does not constitute an offer to a particular person or the general public, or an invitation to submit an offer. It is distributed on a private basis and has not been reviewed or approved by the UAE Central Bank or by another UAE regulatory authority;
- in Abu Dhabi: the Brochure is distributed by CA Indosuez (Switzerland) SA, Abu Dhabi Representative Office, Zayed - The 1st Street- Al Muhairy Center, Office Tower, 4th Floor, P.O. Box 44836 Abu Dhabi, United Arab Emirates. CA Indosuez (Switzerland) SA operates in the United Arab Emirates (UAE) via its representative office which comes under the supervisory authority of the UAE Central Bank. In accordance with the rules and regulations applicable in the UAE, CA Indosuez (Switzerland) SA representation office may not carry out any banking activity. The representative office may only market and promote CA Indosuez (Switzerland) SA's activities and products. The Brochure does not constitute an offer to a particular person or the general public, or an invitation to submit an offer. It is distributed on a private basis and has not been reviewed or approved by the UAE Central Bank or by another UAE regulatory authority;
- in Miami: the Brochure is distributed by CA Indosuez Wealth (Miami) - 600 Brickell Avenue, 37th Floor, Miami, FL 33131, USA. The Brochure is provided on a confidential basis to a limited number of persons for information purposes only. It does not constitute an offer of securities in the United States of America (or in any jurisdiction where this offer would be illegal). The offer of certain securities which may be mentioned in the Brochure may not have been subject to registration in accordance with the Securities Act of 1933. Some securities may not be freely transferable in the United States of America;
- in Brazil: the Brochure is distributed by CA Indosuez Wealth (Brazil) SA DTVM, Av. Brigadeiro Faria Lima, 4.440, 3rd floor, Itaim Bibi, São Paulo, SP-04538-132, registered in the CNPJ/MF under number n. 01.638.542/0001-57;
- in Uruguay: the Brochure is distributed by CA Indosuez Wealth (Uruguay) Servicios & Representaciones SA, Av. Luis A. de Herrera 1248 – World Trade Center Torre III – Piso 15 – Of. 1576, 11300 Montevideo, Uruguay. The Brochure does not constitute an offer to a particular person or the general public or an invitation to submit an offer. It is distributed on a private basis. The Brochure and the products it may mention have not been reviewed or approved by or registered with the Central Bank of Uruguay or any other Uruguayan regulatory authority.

We draw your attention to the fact that access to certain products and services presented in the Brochure may be restricted or forbidden by the law of your country of origin, your country of residence or any other country with which you may have ties.

Please contact your banker and/or your usual advisors for further information.

Photo credits: iStock.

Edited as per 24.04.2020.